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TAGS: EAID ECON ECPS EINT IZ PGOV PREL

SUBJECT: IRAQ TELECOM 2008: MINISTER OF COMMUNICATIONS
SEEKS CONTROL WHILE PRIVATE SECTOR FLEXES ITS MUSCLES

REF: A. BAGHDAD 3331
¶B. BAGHDAD 2452

Classified By: NEA/I DAS R. SCHMIERER, REASONS 1.4(b) and (d)

¶11. (U) This is an action request) see paragraph 12.

¶12. (C) Summary: The third annual Iraq Telecom conference illustrated the potential opportunities and risks that derive from recent policy initiatives by Iraq's new Minister of Communications, including his attempted establishment of state monopolies in international gateways and in fiber optic networks. However, the conference also made clear that the private telecom operators may be sufficiently strong and independent to resist these initiatives. In addition, Muhammad Allawi, former Minister of Communications and current Member of the Council of Representatives, announced his intention to seek broad input from industry on a revised draft telecommunications law. Telecom companies welcomed this development, and strongly encouraged the Ministers to strengthen Iraq's telecom regulator, the Communications and Media Commission (CMC). The Department requests Post to:
-- Encourage Minister of Planning Baban to request World Bank assistance in the development of telecommunications legislation;
-- Encourage the GOI to reconstitute the CMC; and,
-- Consider additional funding for training CMC personnel.
End Summary.

¶13. (SBU) Approximately 100 representatives from industry and government attended the third annual Iraq Telecommunications conference in London on October 13-14. Representatives from the World Bank, the International Telecommunications Union, MNF-I, and a variety of equipment manufacturers, service providers, and investors were present for two days of frequently contentious discussions, including a dramatic (but unfulfilled) threat by Minister of Communications Abdulrahman to walk out of the meeting. USG representatives included Embassy Baghdad/Econ Shwan Halkurd, NEA/I-Econ Tom Gramaglia, and MNF-I/CCJ6 BG Steve Spano.

Minister Seeks to Establish State Monopolies

¶14. (SBU) Minister Abdulrahman stated that the Council of Ministers had already issued an order that provides the Ministry of Communications (MOC) with monopolies on international telecommunications gateways and on fiber optics networks inside Iraq. (Comment: A gateway monopoly would require the current service providers to funnel their international traffic to the MOC-owned Iraq Telecommunications and Postal Company (ITPC). International gateways provide the highest source of revenue for telecom operators in emerging markets. End comment.) The Minister also stated that he had already signed contracts with gateway operators and with international carriers to provide international connectivity.

¶15. (SBU) Dr. Dia Ahmed, the CEO of mobile phone company Asiacell, stated that the company's operating license, as

issued by the CMC, did not require it to use the MOC's gateways. Ahmed acknowledged that his license included a clause requiring Asiacell's use of MOC gateways, but he claimed that it had no legal impact because the MOC did not legally own the gateways, and the clause did not specify whether Asiacell must use the gateways of the national MOC or the Kurdish regional Ministry of Communications. (Comment: Such imaginative legal reasoning reflects the confidence of the firm in resisting the Minister's pressures. End Comment.) The CEO of one Wireless Local Loop (WLL) telecom company, Kalimat Telecom, stated that his license explicitly permitted his company to build a backbone. Ali al Dahwi, the CEO of Zain Telecommunications, Iraq's largest mobile phone company, also objected to the Minister's intentions, accusing the Iraqi government of "mistrusting the private sector" and stating that Iraq was "moving in the reverse direction" from international best practices. CEO al Dahwi also objected to taxation by the Iraqi government, which he claimed was "arbitrary" and imposed "without a clear process," despite Zain's payment of 18 percent of total revenues to the GOI (as required by the terms of its license). He has previously stated his desire that the Ministry "get out of the way" so the private sector operators could serve the Iraqi citizens.

¶6. (SBU) Minister Abdulrahman said that, in his opinion, a MOC monopoly on fiber optic backbones was essential because of the large investment required, which he claimed was too large for any individual company. The mobile phone CEO's were less vocal in their objections to this statement for two very different reasons: a) they welcome the option of purchasing services from the ITPC in order to reduce their satellite bandwidth costs and their capital investment in a private backbone network; and b) they do not believe that the ITPC can build and maintain a backbone successfully.

Phillippe Dongier, the World Bank representative, gently reminded the audience that the establishment of a single, common backbone was not essential or desirable for the robust development of the telecommunications sector, even in poor or low-income countries. He said that the Bank's experience is that the demand for telecommunications is sufficiently high to warrant investment in two or more competing backbones. (Comment: The mobile phone and WLL companies acknowledge that they are investing in some short haul fiber backbone links, thus proving the Bank's point. End Comment.)

Parliamentarian Seeks New Telecommunications Law

¶7. (SBU) Several speakers cited the absence of a robust and effective regulator as an impediment to the development of the telecommunications sector. Zain CEO Al Dahwi said that, following the resignation of CMC CEO Siyamend Othman, "there is no regulator," adding that the CMC "needs to be revitalized" and a "good regulator is exactly what the private sector needs." Several service providers said that the absence of an interconnection regime has hindered the expansion of services to the Iraqi public, and they encouraged the CMC to establish a framework between carriers and the ITPC for the exchange of telecom traffic and the establishment of fair interconnection prices.

¶8. (SBU) International organizations also emphasized the importance of regulation for the development of the telecommunications sector. Sami Al-Basheer Al Moshid, the Director of Development at the International Telecommunications Union, stated that "a fair and transparent regulatory framework that promotes a level and competitive playing field" was required to increase investment. The World Bank's Mr. Dongier stated that "best practice calls for separation of policy, regulation, and operations," specifically citing Iraq's lack of separation of the policy and regulatory functions as a problem for development of the telecom sector in Iraq. (Comment: An independent regulator is particularly important in a country where there is a state-owned carrier (like ITPC) that competes and/or is expected to cooperate with the commercial carriers).

¶9. (SBU) Former Minister of Communications and current

member of the Council of Representatives (COR) Mohammad Allawi stated that he was "now charged with the responsibility of preparing final drafts of the Telecommunications Law, the Law of the Ministry of Communications, and the Law of the Regulator." Allawi said that he was working closely with the World Bank on these laws and on restructuring of the MOC through privatization. He also offered to share his draft laws with the private sector in November in order to seek industry input.

¶10. (C) Mr. Dongier of the World Bank told State representatives at the conference that, contrary to Mr. Allawi's comments, the Bank has provided only limited comments on the COR's draft laws. He said that the Bank is ready to provide technical assistance to the GOI on the draft telecommunications law, but that the GOI's Minister of Planning Baban must first issue a formal request in order to ensure the Bank's perceived neutrality between the the MOC, the CMC, and the COR. Mr. Dongier asked for State Department assistance to encourage a request from the GOI to the Bank.

¶11. (SBU) The State Department continues to fund training classes for CMC personnel, strengthening the CMC and building its nascent capacity to establish proper regulation for the telecom sector in Iraq. This training will end by Nov. 30 if no additional funding is made available.

Action Request:

¶12. (SBU) Post is requested to encourage Minister of Planning Baban to invite the World Bank's participation as a neutral facilitator in Iraq's development of telecommunications laws.

In addition, Post is requested to encourage the GOI to appoint a new CEO and a full slate of Commissioners for the CMC, which will help maintain it as an independent voice for fair and transparent regulation. The Department, especially the Office of the Coordinator of Communications and Information Policy, remains available to provide insight into best practices around the world and specific recommendations on new drafts of telecom laws. Finally, Post is requested to consider providing additional funding for training of CMC personnel, particularly from capacity development funds through the Iraq Transition Assistance Office.

¶13. Baghdad Minimize Considered.

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